Recovery from the Pandemic Crisis: Balancing Short-Term and Long-Term Concerns

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The crisis
A crisis like no other

The COVID-19 pandemic crisis shares some similarities with other crises:

- Natural hazards
- Wars
- Macroeconomic mismanagement
- International financial meltdowns
## A taxonomy of crises and associated shocks

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<th>Characteristics of shocks</th>
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Source: Authors’ formulation.
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However, this pandemic crisis combines the worst features of all these crises:

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Source: Authors’ formulation.
Crisis severity and growth contractions, 1871–2020

Source: Authors’ adaptation from World Bank 2020 Global Economic Prospects, June. Data from Bolt et al. 2018; Kose, Sugawara, and Terrones 2019, 2020
Crisis severity and global uncertainty, 1959–2020

Source: Reproduced from Ahir, Bloom, and Furceri 2018
A crisis like no other

It is the most adverse peacetime shock in over a century

Global Economic Prospects, World Bank 2020
The projected recovery
Comparing the global financial crisis of 2009 with the pandemic crisis of 2020

The decline in global GDP growth projected for 2020 is three times worse than the corresponding decline in 2009.

In 2009, three large regions – East Asia & Pacific, South Asia, and Sub-Saharan Africa – had little or no decline in growth. In 2020, all regions around the world will suffer a contraction.
Growth projections: rebound may not be recovery

Recovery after the crises:

After the GFC, a large increase in global and regional GDP growth occurred right away, with only advanced countries experiencing a sluggish bounce back.

In contrast, the recovery for 2021 is projected to be much less strong, regaining only a fraction of what was lost.

Countries that experience a larger contraction in 2020 are projected to have larger expansions during 2021.
Projected GDP Growth Contraction and Recovery for the Pandemic Crisis

Sources: World Bank 2020 Global Economic Prospects, June; World Bank 2020 World Development Indicators; IMF 2020 World Economic Outlook
The constraints and drivers of recovery
The inescapable facts shaping the recovery

- **Public health concerns will remain paramount**
  - Economic activity will remain **depressed** as long as the threat of the disease is present
  - Smart mitigation strategies can **minimize losses**, but many government have failed to implement them

- **Negative external shock will linger**

- **Pre-existing conditions matter**
Infection Rate

Average daily in September and October

Percentage change from September to October

This map was produced by the Cartography Unit of the World Bank Group. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of the World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.
The inescapable facts shaping the recovery

Public health concerns will remain paramount

Negative external shock will linger

- The global response has been chaotic and uncoordinated
- International borders are likely to remain restricted
- Economic activity will stay low and volatile

Pre-existing conditions matter
External exposure and the impact of the pandemic shock

Initial exposure

Negative impact of the shock
Trade disruptions lead to lower export receipts...

...with a particularly adverse effect on commodity exporters.

Dependence on tourism brings sharp losses in this crisis, with greater vulnerabilities for small economies.

Source: IMF 2020 External Sector Report; World Bank 2020 World Development Indicators.
Declines in remittances inflows are adding to income losses, especially in vulnerable emerging markets and developing economies.

Source: IMF 2020, External Sector Report; World Bank 2020 KNOMAD; World Bank 2020 World Development Indicators.
Emerging markets and developing economies are expected to see FDI inflows decline by over 20 percent.

Source: Institute for International Finance 2020; World Bank 2020 KNOMAD; World Bank 2020 World Development Indicators.
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Initial exposure

Negative impact of the shock
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For developing countries:
- **Domestic**: large informality, dwindling fiscal space, and less effective public services
- **External**: Dependence on tourism, remittances, commodity exports, and international financing
The shape of the recovery: L, W, V, K or U?

- L: Lack of recovery
- W: Volatile recovery
- V: Quick recovery
- K: Uneven recovery
- U: Gradual recovery
The shape of the recovery: L, W, V, K or U?

- Countries unable to control the pandemic
- Countries squander public resources with failed mitigation and recovery attempts
- Pandemic may morph into a macroeconomic, debt, and financial crises
The shape of the recovery: L, W, V, K or U?

- **L (Lack of recovery)**
- **W (Volatile recovery)**
- **V (Quick recovery)**
- **K (Uneven recovery)**
- **U (Gradual recovery)**

Countries that use strict but unsustainable measures, leading to a cycle of openings, outbreaks, and lockdowns.

- Could also be countries that are very dependent on (volatile) external conditions.
The shape of the recovery: L, W, V, K or U?

- **L**: Lack of recovery
- **W**: Volatile recovery
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• Best scenario after a shock but unlikely for most countries because of the depth and uncertainty of the crisis
The shape of the recovery: L, W, V, K or U?

- **L** Lack of recovery
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- Some people and businesses recover well and even profit
- While others face collapse and extreme poverty
The shape of the recovery: L, W, V, K or U?

- **L**: Lack of recovery
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- Most pragmatic scenario
- Recovery would occur based on resilient fundamentals, at a pace driven by the resolution of the pandemic (vaccination or effective treatment) and the normalization of global conditions
Assessing a Country’s Ability to Start and Sustain a Recovery from the Pandemic Crisis

Source: European Centre for Disease Prevention and Control 2020; Our World in Data 2020; OxGRT 2020; UN DESA 2019; World Bank 2019 KNOMAD; World Bank 2020 WDI; WTO 2020; Masks4all 2020; Roser et al. 2020.
Beyond recovery: resilience
Seeking quick recovery by macro/financial stimulus?

Why would the pursuit of a quick recovery be misguided?

- It can lead to repeated waves of the pandemic
- It can result in large fiscal deficits without a significant and steady increase in economic activity
- It may transform emergency measures into regular practice: loss of central bank autonomy, lax financial regulatory policy, industrial policy?
Beyond quick recovery, long-term resilience as a goal

What does long-term resilience require?

- **Human Capital**
  - Children need to go back to school safely
  - Support vulnerable families

- **Physical Capital**
  - High quality public investment
  - Fiscal moderation
  - Policy certainty

- **Productivity**
  - Avoid unnecessary business closures
  - Facilitate online business practices
Conclusion: Leveraging the Crisis to Promote Necessary Reforms

- Improve access to and quality of public health care
- Promote digital transformation in schools, businesses, and government
- Expand labor and business formalization
- Improve the coverage and adequacy of social protection
- Extend financial inclusion to elderly, rural, and poor people
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Thanks